

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF RETIREMENT AND BENEFITS

FRANK H. MURKOWSKI, GOVERNOR

PO BOX 110203
JUNEAU, AK 99811-0203
TDD: (907) 465-2805
FAX: (907) 465-3086
PHONE: (907) 465-4460
TOLL-FREE 1-800-821-2251

August 25, 2006

Dear Employer:

As an employer participating in the State sponsored defined benefit (DB) plans, you have the opportunity to either allow or not allow your non-vested DB members to convert to the new defined contribution retirement (DCR) plan. The Division of Retirement and Benefits (Division) has developed and distributed an Employer Guide to Conversion booklet and a sample Resolution to assist employers with this process and ultimate decision. Missing during that distribution was the actuarial data specific to each employer that the Division is now making available on the Division's website at: www.state.ak.us/drb/employer/er-guide-to-conversion.shtml.

This letter summarizes the data presented and provides basic guidance to help you evaluate the data. Representatives from the Division and the Division's actuary (Buck Consultants) will be available in Anchorage on August 30, 2006, to answer questions. You are welcome to join us in Anchorage or dial into a conference line to participate in this meeting. This meeting will be held in the Haines Room at the Anchorage Marriott. Employers not able to attend the meeting can join via teleconference by calling 1-800-315-6338 and using the code 4466#. The meeting will begin at 2 p.m.

To obtain your specific actuarial conversion data you need to first ensure that your macro security level on your computer is set to medium. To set your macro security level to medium select "Macro" from the "Tools" menu and then select "Security." On the "Security Level" tab, select, "Medium." You are now ready to open the actuarial data spreadsheet so browse to the link provided above and:

- click on the link "TRS Actuarial data specific to each employer;"
- click on "Enable Macros;"
- click on "Print One;"
- enter your three digit Employer Number;
- click "Print;" and (If you are having trouble with the print function, save the program to your hard drive and proceed opening it from there.)
- re-set your macro security level.

Following is a summary of the actuarial data provided and basic guidance to help you evaluate the data:

Number of Non-Vested Members (line 1) – this is the number of members you had enrolled on April 16, 2006, that were not vested on April 16, 2006. This number will differ from the result you get running the SB141 Conversion Eligibility report as the SB141 Conversion Eligibility report reflects enrollments and service credits through the day the report is requested.

Projected Annual Compensation for Fiscal Year 2007 for Non-Vested Members with Employer (line 2) – this is the projected annual FY07 compensation for the employer's specific non-vested members.

Projected Annual Compensation for Fiscal Year 2007 for All Members with Employer (line 3) – this is the projected annual FY07 compensation for all the employer's specific members.

Projected Annual Compensation for Fiscal Year 2007 for All Plan Members (line 4) – this is the projected annual FY07 compensation for all TRS Plan members with all TRS participating employers.

For lines 2 through 4, the actuary used compensation reported to the Division through April 16, 2006, to estimate compensation for FY07. The salary information was annualized to get a FY06 annual salary and then projected to FY07 with the assumed salary scale used in the June 30, 2005 valuation report.

Accumulated Refundable Member Balance with Interest for Non-Vested Members of the Employer (line 5) – this is the employer's member's refundable balance including interest credited through April 16, 2006. The balance has been projected to June 30, 2006. This is the amount that will transfer to the DCR Plan if all of the employer's members convert. This transfer will represent a decrease in TRS assets at the time of conversion.

Accrued Liability (Pension and Postemployment Healthcare) for Non-Vested Members of the Employer (line 6) – this is the TRS' June 30, 2006, liability associated with your current members who were non-vested members at April 16, 2006. This is the liability that will be eliminated from the TRS plan, as a whole, if the members convert.

Decrease in Unfunded Liability for the Total Defined Benefit (DB) Plan if All Non-Vested Members of the Employer Convert to the DCR Plan (line 7) – this is simply the difference between the accrued liability and the member's refundable balance that will be eliminated from the TRS if the members convert. It is represented as the net present value of the TRS' savings due to past service for all of the employer's non-vested members converting to the DCR plan.

25 Year Amortization of Decrease in Total DB Plan Unfunded Liability if All Non-Vested Members with the Employer Convert to the DCR Plan (Based on no Payroll Growth Assumption) (line 8) – this is simply the amount of the decrease in the liability (past service cost) that will be included in the TRS contribution rate calculation each year for the next 25 years (using 8.25% as the discount factor).

Total Normal Cost Amount Reduction for Total DB Plan if all Non-Vested Members with the Employer convert to the DCR Plan (Does Not Take into Consideration the DCR Plan Contribution) (line 9) – This is the cost associated with an additional year of service for those members who are assumed to have converted to the DCR Plan. The normal cost used in this analysis is not the normal cost rate component of the FY07 rates. The normal cost in this analysis is the normal cost associated with the specific members who would qualify for conversion. The normal cost rate component of your FY07 rate is an average normal cost rate for all members in the TRS.

Total Decrease in Total DB Plan Actuarially Calculated Employer Contribution as a Percent of Pay ([line 8 + line 9] / [line 4 – line 2]) (line 10) – This is the estimated decrease in the TRS actuarially calculated contribution rate that all participating TRS employers would experience if all non-vested members of only this employer choose to convert to the DCR Plan. It is important to note that the actuarially calculated TRS contribution rate for FY07 was 41.78% not the 26% paid by employers. The reduction reflected on this line represents a reduction in the actuarially calculated rate not necessarily the rate paid by employers.

Line 11 – This line reflects the various DCR contributions that would be required of this employer for their members who are assumed to have converted.

Estimated FY07 Cost/(Savings) if All Non-Vested Members with the Employer Elect to Convert to the DCR Plan (line 11.e. – [26.00% * line 2]) (line 12) – this line reflects the estimated annual savings for FY07 if all non-vested members of the employer choose to convert to the DCR plan. The reduction reflected on line 10 is not represented in this line due to the spread (15.78%) between the actuarially calculated rate and the rate being paid by the employer.

One Time Cost (Matching Employer Contribution) (line 13) – this is the out-of-pocket contribution the employer will be required to make into the DCR plan if all of their non-vested members choose to convert. This contribution must be new money and cannot come from the TRS plan. The employer's conversion match must be paid within 30 days of the effective date of the member's participation in the DCR plan.

Total Decrease in Total DB Plan Actuarially calculated Employer Contribution as a Percent of Pay if All Non-Vested Members of All Employers Elect to Convert (line 14) – this line reflects the estimated change in the TRS actuarially calculated DB contribution rate if all TRS employers decide to participate in the conversion option and if all qualified members choose to convert. Note that this reduction nearly closes the spread between the actuarially calculated rate and the rate being paid by the employer.

Basic Guidance

It is important to remember that the TRS DB Plan is a cost-sharing, multiple employer plan. This means that the actions of one employer (and ultimately their members) will affect the plan as a whole, not just the employer. Lines 5 through 9 of the summary sheet provided represent the effect of your member's assumed conversion on the TRS as a whole and not the effect on the employer alone. Lines 10 and 14 of the summary sheet provided represent the effect of conversion on the TRS actuarially calculated rate and not necessarily the effect on the rate paid by employers.

To analyze the maximum savings you as an employer will experience if all your non-vested members convert:

- Refer to line 12 of the summary sheet provided. It is estimated that in FY07 you will save the value on line 12 if all your non-vested members convert to the DCR plan.
- Contrast the difference in the normal cost associated with the two plans. The normal cost associated with the DB plan is 13.76% of line 2 for FY07. The normal cost associated with the DCR plan for FY07 would be line 11e.

- Consider that in the 24 years following FY07, you will experience savings equal to the difference between the DB contribution rate and the DCR required contributions on the payroll related to converted members (if these members remain employed by you).
- Consider line 13 which is the out-of-pocket cost associated with the savings outlined above.

Line 10 and line 14 represent the estimated range of change in the TRS actuarially calculated DB contribution rate the Plan would experience if this employer's eligible members choose to convert to the DCR Plan and if members of other TRS employers choose to convert.

Some items to consider:


- How many of your non-vested members will take advantage of the conversion option?
- Do you have the financial resources available to meet the out-of-pocket cost associated with participating in the conversion option?

For members who choose to convert in FY07, the Plan related effect of their conversion will be included in the valuation performed at 6/30/2007. The 6/30/2007 valuation is used to set contribution rates for FY10. The actuarial analysis presented here does not take this delay into consideration.

The Division is prepared to entertain an adjustment to rates prior to FY10 if the TRS Plan experiences a high rate of conversion. Rate adjustments would have to be approved by the Alaska Retirement Management Board.

Please refer to the Employer Guide to Conversion booklet for information related to the conversion option. Page 7 of this booklet provides the names and contact numbers for regional counselors who can answer questions about this option.

Sincerely,


Traci Carpenter
Director

TC/CM/ck

g:\publications\mailouts\sb141\accounting section\conversion\conversion data cover letter-trs.doc

CC: Melanie Millhorn, Deputy Commissioner
KathyLea, Retirement Manager
Charlene Morrison, Chief Financial Officer